

1QFY24 Concall – Key Takeaways

Industry:

1. Refractory industry has been performing very well and domestic demand is very strong. Demand from Europe and CIS country is still weak.
2. Large part of consolidation in refractory industry has largely happened. Top 5 companies contribute to 2/3rd of the total domestic refractory industry.

Operations:

1. Utilisation for plants was roughly 70% across all locations. Peak utilisation is 100% for most of these products.
2. US subsidiary has done exceedingly well which has led to better margins in consolidated nos.
3. Sheffield Refractories – Rs540mn in 1QFY24 and Rs200mn in Q4FY23.
4. IFGL is importing Magnesia carbon bricks which will be localised in Vizag which should lead to some margin expansion.
5. Most of the made of India refractories are for ladle and tundish refractories.
6. IFGL expects some correction in prices which will be compensated by the declining RM cost.
7. Domestic business is expected to grow faster due to the renewed thrust in terms of sales.
8. In IFGL, 10-12% of Raw materials is recycled.
9. IFGL is present in all the large integrated steel plants including SAIL.
10. ~70% of IFGL's revenues fall under performance contract which is calculated based on per heats.

Projects:

1. The approval for land has been received for the new greenfield plant in Odisha and capex will be Rs1.5bn to add 2,40,000pieces of capacity of continuous casting refractories. This capacity will take 18-20months for construction and should start in Mar'25. IFGL has chosen Odisha as the location for greenfield as there are massive steel capacities to be commissioned in Odisha. (35mntonnes in 2023 is expected to go to 130mntonnes by 2030-31 – Odisha will produce 40-45% of the Indian steel production)
2. Continuous casting refractories is high margin product, and the new plant will be a state of
3. Peak Revenue of this capacity is Rs1.5-2bn. This project will be funded partly by debt and partly by internal accruals.
4. Aggregate capex of Rs1.77bn may slightly adjust down to Rs1.6bn. Odisha and Vizag – 50% capex is spent and Kandla – 90% capex is spent. All the new capex will start contributing from FY25 with 3x asset turnover.
5. Odisha R&D centre will be commissioned in 3QFY24.

Financials and Guidance:

1. Consolidated margins should sustain at more than 12% going ahead.
2. IFGL is targeting growth of 10-15% for FY24 and revenues of Rs17.5bn. IFGL is targeting to double the revenues by FY26 vs FY22.
3. Europe business is still struggling and 2HFY24 is expected to be better. US business continues to do well.
4. Goodwill that has arrived from merger of Kandla plant will continue for another 3years.
5. Export benefits were high because of the old MEIS scheme and no its only road tax which is given as export incentives. So current rate of export benefits will continue.

Valuation – Undervalued and evolving

SOTP Valuation

We value IFGL business using SOTP method due to different valuations attributable to the overseas subsidiaries and domestic business.

IFGL's standalone business is very much comparable to its peers with competent margins and return ratios. With high OCF/Cash PAT ratio and net cash balance sheet, we believe IFGL's domestic business deserves if not at par to its peers but still better valuations than what it trades currently. **Though the stock has re-rated in the last 2 quarters post our report, we expect still some valuation re-rating to happen.**

Therefore, we value the overseas business at 2.8x Jun'25E EV/EBITDA, which is 60% discount to its global peers' 1-year forward EV/EBITDA and we value domestic business at 11x Jun'25E EV/EBITDA (10x before), which is at 40% discount to its domestic peer's 1-yr forward EV/EBITDA to arrive at the fair value of Rs610/share. At CMP of Rs490, stock trades at 7.5x FY25E EV/EBITDA. Key risks: Poor performance from subsidiaries, RM cost inflation and failure to achieve strong growth.

Exhibit 1: EV/EBITDA Valuation

(GBP mn) – Overseas business	Jun'25E	INR mn – domestic business	Jun'25E
EBITDA	6.1	EBITDA	1885
Global Peer avg. EV/EBITDA	7	Domestic peer avg. EV/EBITDA valuation	17
Discount for IFGL overseas ops.	60%	Discount for IFGL domestic ops.	40%
EV/EBITDA (x)	2.8	EV/EBITDA (x)	11.1
EV	17.2	EV	20,829

Source: MNCL Research estimates

Exhibit 2: EV/EBITDA Valuation

SOTP Valuation	Jun'25E
EV Overseas Ops (GBP mn)	17.2
GBP/INR	106
EV Overseas Ops (INR mn)	1,822
EV Domestic Ops (INR mn)	20,829
Total EV - IFGL Cons.	22,651
Subtract: Net debt / (net cash)	-679
Fair value mkt cap	21,972
No. of shares (mn)	36.0
Fair Value/share (Rs)	610
CMP	490
Upside	24%

Source: MNCL Research estimates

Exhibit 3: 1-yr forward EV/EBITDA



Source: Company, Bloomberg, MNCL Research estimates

Exhibit 4: 1-yr forward PE ratio



Source: Company, Bloomberg, MNCL Research estimates

Quarterly Financials and Key Performance Indicators

Exhibit 5: Quarterly Financials

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Total Income	3099	3136	3612	3593	3431	3160	3681	4239
Accretion to Stocks in trade & work in progress	-23	-166	-147	8	49	-103	-60	-327
Cost of Raw materials consumed	1269	1421	1746	1639	1445	1328	1584	2174
Purchase of traded goods	259	257	164	271	290	410	358	265
Staff cost	446	440	431	469	474	507	498	614
Other operational expenses	781	827	908	866	812	674	818	953
Operating Profit (Core EBITDA)	368	358	511	340	362	343	484	560
Depreciation	120	125	148	131	133	134	159	156
EBIT	248	233	364	210	230	209	325	404
Interest	10	10	6	13	16	13	7	25
Other Revenue/Income	38	36	54	5	26	23	78	35
Profit Before Tax	277	259	273	202	239	220	396	413
Tax	77	70	66	56	45	62	102	115
Profit After Tax	200	189	207	146	195	158	294	298
Minority Interest	0	0	0	0	0	0	0	0
PAT after minority interest	200	189	345	146	195	158	294	298
Growth (%)								
Revenue	25.9	8.5	27.4	30.8	10.7	0.7	1.9	18.0
EBITDA	-5.7	-26.7	16.0	4.3	-1.7	-4.2	-5.4	64.5
PAT	-3.1	-35.7	NM	-18.6	-2.8	-16.5	-14.8	104.7
Margin (%)								
EBITDA	11.9	11.4	14.2	9.5	10.6	10.9	13.1	13.2
EBIT	8.0	7.4	10.1	5.8	6.7	6.6	8.8	9.5
PAT	6.5	6.0	9.6	4.0	5.7	5.0	8.0	7.0
Segment Revenue (Net Sales/ Income from ops)								
India	1963	1907	2314	2237	2108	1805	2077	2241
Asia (Excl India)	39	69	36	34	38	43	62	79
Europe	596	662	673	667	560	606	836	1192
Americas	501	499	589	655	724	706	706	727
Segment EBIT								
India	246	250	228	180	193	191	335	350
Asia (Excl India)	6	19	8	11	13	14	-3	27
Europe	24	1	31	24	17	-10	29	20
Americas	10	-1	12	0	31	38	45	51

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 6: Income Statement

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	9,504	9,173	10,219	12,595	13,865	17,339	19,068	21,317
Materials cost	4,770	4,591	4,740	6,095	7,228	8,670	9,153	10,232
% of revenues	50.2	50.0	46.4	48.4	52.1	50.0	48.0	48.0
Employee cost	1,462	1,504	1,518	1,739	1,948	2,241	2,577	2,963
% of revenues	15.4	16.4	14.9	13.8	14.1	12.9	13.5	13.9
Others	2,185	2,162	2,408	3,284	3,160	4,208	4,866	5,307
% of revenues	23.0	23.6	23.6	26.1	22.8	24.3	25.5	24.9
EBITDA	1,087	916	1,554	1,477	1,529	2,221	2,473	2,815
EBITDA margin (%)	11.4	10.0	15.2	11.7	11.0	12.8	13.0	13.2
Depreciation & Amortisation	460	483	486	511	556	669	684	789
EBIT	627	432	1,068	966	974	1,552	1,788	2,026
Interest expenses	37	36	31	34	48	63	77	28
Other income	50	110	205	159	132	9	10	21
Exceptional items	0	-206	0	-138	0	0	0	0
PBT	640	300	1,242	952	1,057	1,497	1,721	2,019
Taxes	136	105	586	265	265	404	465	545
Effective tax rate (%)	35%	31%	26%	26%	26%	26%	26%	26%
Reported PAT	505	195	656	688	792	1,093	1,256	1,474
Adjusted PAT	505	401	656	826	792	1,093	1,256	1,474

Exhibit 7: Key Ratios

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)								
Revenue	13.8	-3.5	11.4	23.2	10.1	25.1	10.0	11.8
EBITDA	2.6	-15.8	69.6	-4.9	3.6	45.2	11.3	13.8
Adjusted PAT	7.1	-61.4	237.0	4.8	15.2	38.0	14.9	17.3
Margin Ratios (%)								
EBITDA	11.4	10.0	15.2	11.7	11.0	12.8	13.0	13.2
PBT from operations	6.2	4.3	10.1	7.4	6.7	8.6	9.0	9.4
Adjusted PAT	5.3	2.1	6.4	5.5	5.7	6.3	6.6	6.9
Return Ratios (%)								
ROE	6.5	2.4	7.7	7.5	8.2	10.5	11.2	12.1
ROCE	6.0	4.0	6.7	7.5	6.8	9.2	9.8	10.8
ROIC	6.5	4.1	8.2	8.3	7.0	9.3	9.8	11.1
Turnover Ratios (days)								
Gross block turnover ratio (x)	2.9	3	3	3	3	3	3	2
Debtors	87.8	84	82	79	92	85	85	85
Inventory	60.1	56	60	75	80	75	75	75
Creditors	47.8	49	55	54	49	55	55	55
Cash conversion cycle	100.1	91	86	100	123	105	105	105
Solvency Ratio (x)								
Net debt-equity	-0.1	-0.2	-0.3	-0.2	0.0	0.1	0.1	0.0
Debt-equity	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Interest coverage ratio	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross debt/EBITDA	0.8	0.6	0.3	0.6	1.0	0.4	0.4	0.1
Current Ratio	3.8	3.3	3.3	3.4	3.5	2.9	2.9	3.0
Per share Ratios (Rs)								
Adjusted EPS	14.0	11.1	18.2	22.9	22.0	30.3	34.9	40.9
BVPS	220.5	224.5	247.1	259.2	278.9	300.2	324.6	353.2
CEPS	26.8	24.5	31.7	37.1	37.4	48.9	53.8	62.8
DPS	2.0	5.0	10.0	7.0	7.0	9.0	10.5	12.3
Dividend payout %	0.1	0.4	0.5	0.3	0.3	0.3	0.3	0.3
Valuation (x)*								
P/E (adjusted)	16.8	14.8	9.5	14.4	11.4	16.0	13.9	11.9
P/BV	1.1	0.7	0.7	1.3	0.9	1.6	1.5	1.4
EV/EBITDA	7.4	4.8	2.3	7.0	5.7	8.2	7.5	6.2
Dividend yield %	0.9	3.0	5.8	2.1	2.8	1.9	2.2	2.5

Source: Company, MNCL Research estimates

Exhibit 8: Balance Sheet

Y/E March (Rs mn)s	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Equity Share Capital	360	360	360	360	360	360	360	360
Reserves & surplus	7,586	7,729	8,545	8,980	9,690	10,459	11,338	12,370
Shareholders' fund	7,946	8,089	8,905	9,340	10,050	10,819	11,699	12,730
Total Debt (incl. pref shares if its thr)	894	518	516	871	1,485	900	1,100	400
Def tax liab. (net)	100	122	478	497	534	534	534	534
Minority interest	-	-	-	-	-	-	-	-
Lease liabilities	-	129	121	120	117	117	117	117
Total Liabilities	8,940	8,858	10,020	10,827	12,186	12,370	13,449	13,781
Gross Block	4,537	4,615	4,839	5,329	6,436	7,836	8,086	9,836
Less: Acc. Depreciation	1,890	2,056	2,244	2,420	2,717	3,068	3,447	3,941
Net Block	2,647	2,559	2,595	2,909	3,720	4,768	4,639	5,895
Capital WIP	63	69	221	250	456	956	1,956	456
Net Fixed Assets	4,604	4,253	4,173	4,252	5,227	6,457	7,023	6,484
Right to use assets	-	220	203	217	231	231	231	231
Investments	460	937	1,278	1,348	1,324	194	194	194
Inventories	1,565	1,417	1,678	2,594	3,020	3,563	3,918	4,380
Sundry debtors	2,286	2,105	2,282	2,720	3,498	4,038	4,440	4,964
Cash	879	1,107	1,908	1,279	580	168	189	419
Loans & Advances	25	29	29	-	-	48	52	58
Other assets	423	223	287	451	379	379	379	379
Total Current Asset	5,177	4,881	6,185	7,044	7,478	8,195	8,979	10,201
Trade payables	1,244	1,242	1,551	1,872	1,862	2,613	2,873	3,212
Other current Liab.	51	189	266	158	208	48	52	58
Provisions	7	3	3	3	4	48	52	58
Net Current Assets	3,875	3,448	4,365	5,010	5,405	5,487	6,001	6,872
Total Assets	8,940	8,858	10,020	10,827	12,186	12,370	13,449	13,781

Exhibit 9: Cash Flow

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating profit bef working capital changes	1113	1045	1650	1610	1525	2221	2473	2815
Changes in working capital	133	458	-63	-1312	-1173	-495	-493	-641
Cash flow from operations	1094	1499	1394	44	63	1322	1516	1629
Net Capex	379	242	310	656	1358	1900	1250	250
FCF	715	1257	1084	-612	-1295	-578	266	1379
Cash flow from investments	-711	-537	-1064	-240	-1227	-762	-1241	-229
Cash flow from financing	-365	-662	-46	-70	498	-972	-254	-1170
Net change in cash	26	333	379	-285	-638	-412	21	230

Source: MNCL Research Estimates

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Office: - 9th Floor, Atlanta Centre, Sonawala Lane, Opp. Udyog Bhavan, Goregaon (E), Mumbai 400 063. Tel No.: 022 30641600
